STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Interstate Power Company	)	**No. 01-0528**
and	)	
South Beloit Water, Gas and Electric Company	)	
	)	
Joint Petition for Approval of Residential	)	
Delivery Services Implementation Plan	)	
submitted pursuant to Section 16-105 of the	)	
Illinois Public Utility Act.	)	
INTERSTATE POWER COMPANY	)	**No. 01-0628**
	)	
Petition for Approval of Delivery Services	)	
Tariffs submitted Pursuant to Section 16-108	)	
of the Illinois Public Utilities Act	)	
SOUTH BELOIT WATER, GAS AND	)	
ELECTRIC COMPANY	)	**No. 01-0629**
	)	**(Consolidated)**
Petition for Approval of Delivery Services	)	
Tariffs submitted Pursuant to Section 16-108	)	
of the Illinois Public Utilities Act	)	

BRIEF ON EXCEPTIONS OF THE STAFF OF THE ILLINOIS COMMERCE COMMISSION

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February 20, 2002

Table of Contents

NOW COMES the Staff of the Illinois Commerce Commission ("Staff") and pursuant to Section 200.830 of the Illinois Commerce Commission Rules of Practice (83 Ill. Adm. Code 200.830), respectfully submits this brief on exceptions to the Administrative Law Judges' Proposed Order ("PO") issued on February 5, 2002.

The PO reflects a careful analysis of the record and briefs filed by the parties. Staff only proposes a few changes to the PO along with some typographical corrections.

I. Exceptions

A. The PO's description of Staff's comparable sample selection process contains two technical errors

<u>Argument</u>

The PO correctly states that Staff witness Kight's samples of comparable utilities were selected based upon Standard & Poor's credit rating, on the absence of involvement in a pending merger, and the availability of Value Line beta estimates and growth rate forecasts from either Institutional Brokers Estimate System (IBES) or Zacks Investment Research (Zacks). (Docket No. 01-0628, ICC Staff Exhibit 2.0CR pp. 10-11 and Docket No. 01-0629, ICC Staff Exhibit 2.0C pp. 11-12) However, Ms. Kight also selected companies based on a percentage of revenue from electric or gas services.

In addition, the PO states that Staff witness Kight used IPC's and SBWGE's pre-October 15, 2001, S&P's credit ratings and business profiles to find comparable companies. However, Staff witness Kight used the S&P credit ratings and revenues from electric or gas to determine her sample companies. Then Ms. Kight compared the sample companies' credit ratings and business profiles to that of IPC and SBWGE to determine which sample was most representative of the risk of IPC and SBWGE's electric delivery services. (Docket No. 01-0628, ICC Staff Exhibit 2.0CR pp. 10-11, 29-30, and Schedule 2.09 and Docket No. 01-0629, ICC Staff Exhibit 2.0C pp. 11-12, 29-30, and Schedule 2.09)

Proposed Modification
(PO, p. 8)

* * *

Choice of Sample

The first sample Ms. Kight selected for the IPC analysis was comprised of nine cash-dividend paying, market-traded electric utilities within the *Standard & Poor's Utility Compustat* database that <u>derived at least 70% of its revenue from electric services,</u> had Standard & Poor's ("S&P") credit ratings of A- to AA; that were not involved in any large, pending merger; and for which Value Line beta estimates and either Institutional Brokers Estimate System ("IBES") or Zacks growth forecasts were available ("Electric Sample"). The second sample consisted of eight cash-dividend paying, market-traded natural gas distribution utilities selected from the *Standard & Poor's Utility Compustat* database that <u>derived at least 70% of its revenue from gas services,</u> had S&P credit ratings of A- to AA; that were not involved in any large, pending merger; and for which Value Line beta estimates and either IBES or Zacks growth forecasts were available ("Gas Sample"). (Docket 01-0628 Staff Ex. 2.0CR, pp. 10-11).

The first sample used by Ms. Kight for the SBWGE analysis was comprised of six cash-dividend paying, market-traded electric utilities within the *Standard & Poor's Utility Compustat* database that <u>derived at least 70% of its revenue from electric services,</u> had S&P credit ratings of A to AA+; that were not involved in any large, pending merger; and for which Value Line beta estimates and either IBES or Zacks growth forecasts were available ("Electric Sample"). The second sample consisted of six cash-dividend paying, market-traded natural gas distribution utilities selected from the *Standard & Poor's Utility Compustat* database that <u>derived at least 70% of its revenue from gas services,</u> had S&P credit ratings of A to AA+; that were not involved in any large, pending merger; and for which Value Line beta estimates and either IBES or Zacks growth forecasts were available ("Gas Sample"). (Docket 01-0629 Staff Ex. 2.0C, pp. 11-12).

In order to determine which sample better represented the electric delivery service operation of IPC and SBWGE ~~find comparable companies for her samples~~, Ms. Kight ~~used~~ compared IPC's and SBWGE's pre-October 15, 2001, S&P's credit ratings and business profiles to the sample companies' S&P credit ratings and business profiles. On that date, S&P downgraded the Companies' credit ratings because of their parent company's, Alliant's, "increased focus on expanding its higher-risk, non-regulated businesses."

B. The PO fails to include all the components of delivery service revenue in its discussion

Argument

The PO fails to identify all of the components of the delivery service revenue. The PO identifies only the tariffed revenue as shown on Appendix B, Schedule 1, as delivery service revenue. The PO mistakenly excludes $47,000 of other revenues from Line 2 of Schedule 1. These other revenues also are revenues from delivery service operations. The other revenues represent electric service connection revenues and earnings from the rental of electric plant. ICC Staff Ex. 1.0, pp. 9-10. The revenues identified in the PO as "total revenue" requirement are in fact the revenues that are recoverable through the new DST tariffs. The Order in this docket should reflect the concept that all of the revenues are used to satisfy the DST revenue requirement.

Proposed Modification
(PO, p. 3)

* * *

With respect to revenue requirements associated with providing delivery services, IPC initially proposed a delivery services revenue requirement of $5,409,000 and SBWGE proposed a delivery services revenue requirement of $3,1~~2~~61~~2~~,000. At the conclusion of the hearing, IPC proposed a delivery services revenue requirement of $5,348,000 and SBWGE proposed a delivery service revenue requirement of $2,889,000. These recommendations include all of the Staff adjustments except for the recommended return on common equity rates that remain at issue in this proceeding.

Staff's proposed delivery services revenue requirement for IPC was $5,058,000, a difference of $351,000, or 6.49% less than that initially proposed by IPC. Staff's proposed delivery services revenue requirement for SBWGE was $2,772~~5~~,000 ~~(total revenue requirement of $2,772,000)~~ a difference of $389~~436~~,000 for delivery services revenues ~~(a total revenue requirement difference of $389,000)~~, or 12~~3~~.31~~79~~% less than the delivery services revenue requirement ~~(12.31% less on total revenue requirement)~~ initially proposed by SBWGE.

* * *

In addition, the following paragraph and finding must be changed to be consistent with the above exception.

Proposed Modification
(PO, p. 4)

* * *

Staff recommended the following adjustments to SBWGE's distribution revenues and expenses: 1) an increase of $47,000 in other revenue; 3) a decrease of $22,000 for uncollectible expenses; and 3) a decrease of $3,000 for advertising expense. SBWGE agreed to the adjustments. Giving effect to these agreed adjustments and the overall rate of return of 9.26% hereafter allowed for SBWGE in this Order, the Commission concludes that SBWGE's delivery services operating income statement for the test year, for purposes of this proceeding, is as shown on Schedule 1 of Appendix B attached hereto. The delivery services revenue requirement approved herein for SBWGE is $2,772~~5~~,000.

* * *

Proposed Modification
(PO, p. 14)

* * *

7) for purposes of this proceeding~~s~~, Interstate Power Company's delivery services revenue requirement is $5,058,000; South Beloit Water Gas & Electric Company's delivery services revenue requirement is $2,772~~5~~,000;

* * *

C. The PO's discussion of SBWGE's Delivery Services Revenue Requirement is in error

Argument

The PO states "…and SBWGE proposed a delivery services revenue requirement of $3,262,000". PO, p 3. However, Appendix B to the PO, Schedule 1, line 1, column b indicates that the Company's original revenue requirement was $3,161,000. The correct figure is $3,161,000. SBWGE Ex. 1.0, p. 2

This correction is included in exception B, above. If that exception is accepted then this exception becomes moot.

Proposed Modification
(PO, p. 3)

* * *

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* * *

D. Typographical Errors

1. Page 10, 3rd full paragraph, last line

"… 1999, p. 54; and Docket ~~99~~94-0065, Order, …"

2. Page 11, 2nd full paragraph, 4th line

"… cost of common equity, which produce ~~retuns~~ returns on rate base…"

II. Conclusion

WHEREFORE, for the reasons set forth, the Staff of the Illinois Commerce Commission respectfully requests that its modifications to the Administrative Law Judges' Proposed Order be adopted.

Respectfully submitted,

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